

# **MICHIGAN CENTER SCHOOL DISTRICT**

**Michigan Center, Michigan**



## **FINANCIAL STATEMENTS**

**For The Year Ended June 30, 2008**



**REHMANN ROBSON**

*Certified Public Accountants*

# MICHIGAN CENTER SCHOOL DISTRICT

For the Year Ended June 30, 2008

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## **INDEPENDENT AUDITORS' REPORT**

September 19, 2008

Board of Education  
Michigan Center School District  
Michigan Center, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **MICHIGAN CENTER SCHOOL DISTRICT**, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Michigan Center School District, as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2008, on our consideration of the Michigan Center School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## MANAGEMENT'S DISCUSSION and ANALYSIS

## **Management's Discussion and Analysis**

As management of Michigan Center School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$13,023,183 (*net assets*). Of this amount, \$3,051,825 (*unrestricted net assets*) may be used to meet the government's ongoing obligations for district programs.
- The government's total net assets increased by \$283,520.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,202,208, an increase of \$941,515 in comparison with the prior year. Approximately 99%, or \$5,192,579, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$3,062,822 or 28 percent of total general fund expenditures.
- Investments for the future were made by the spending of approximately \$139,000 on school improvements, vehicles and equipment. No new debt was issued to finance these projects.
- In June 2003, Michigan Center School District voters approved a 3.5 mill 6 year sinking fund levy. The revenue generated enabled the school district to expand the Jr/Sr High School building capacity. The new addition includes a gymnasium, band room, four classrooms, and several bathrooms.
- The new High School Gym construction was completed in the spring of 2005. The science classrooms and High School band room were completed in April 2006. Revenue sources were the sinking fund revenue plus the capital improvement project fund derived from non-homestead revenue.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, athletics and community service. The District has no business-type activities as of and for the year ended June 30, 2008.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, food service and capital projects funds, each of which are considered to be a major fund. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. A Budgetary comparison statement has been provided for the General Fund (a major fund) to demonstrate compliance with its budget.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the basic financial statement section of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining fund statements and schedules can be found following the notes section of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$13,023,183 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets (65 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### District's Net Assets

	<u>2006-07</u>	<u>Governmental Activities</u> <u>2007-08</u>
Current and other assets	\$5,471,671	\$6,326,498
Capital assets, net	<u>8,704,203</u>	<u>8,527,713</u>
Total assets	<u>14,175,874</u>	<u>14,854,211</u>
Long-term liabilities outstanding	287,741	509,465
Other liabilities	<u>1,148,470</u>	<u>1,321,563</u>
Total liabilities	<u>1,436,211</u>	<u>1,831,028</u>
Net assets:		
Invested in capital assets, net of related debt	8,704,203	8,527,713
Restricted	862,077	1,443,645
Unrestricted	<u>3,173,383</u>	<u>3,051,825</u>
Total net assets	<u>\$12,739,663</u>	<u>\$13,023,183</u>



An additional portion of the District's net assets (\$1,443,645) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (23 percent or \$3,051,825) may be used to meet the government's ongoing obligations to its programs.

At the end of the current fiscal year, the District was able to report positive balances in the two categories of net assets, both for the government as a whole, as well as for its separate governmental-type activities.

The government's net assets increased by \$283,520 during the current fiscal year. Most of this growth largely reflects the degree to which ongoing revenues exceeded ongoing expenses. Since the "Schools of Choice" legislation was enacted, the District's enrollment has increased every year, and now hovers around 1,450 students. Also, capital outlay of \$139,000 is not an expense in the government-wide financial statements, but is an expenditure in the fund financial statements.

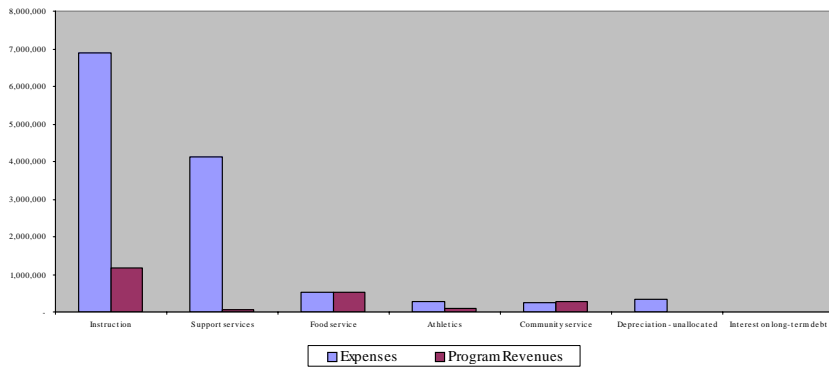
### District's Changes in Net Assets

	<b>Governmental Activities</b>	
<b>Revenue</b>	<b><u>2006-07</u></b>	<b><u>2007-08</u></b>
Program revenue:		
Charges for services	\$593,664	529,976
Operating grants and contributions	1,538,767	1,488,740
Capital grants and contributions	-	-
General revenue:		
Property taxes	1,716,115	1,813,182
State school aid	9,209,312	9,025,235
Grants and contributions not restricted to specific programs	110,061	109,427
Other	<u>121,330</u>	<u>142,069</u>
<b>Total revenue</b>	<b><u>13,289,249</u></b>	<b><u>13,108,629</u></b>
<b>Expenses:</b>		
Instruction	6,906,676	7,270,952
Support services	4,116,252	4,180,483
Food service	537,191	564,922
Athletics	268,195	239,786
Community service	236,088	251,450
Depreciation – unallocated	349,650	315,336
Interest on long-term debt	<u>-</u>	<u>-</u>
<b>Total expenses</b>	<b><u>12,414,052</u></b>	<b><u>12,825,109</u></b>
<b>Increase in net assets</b>	<b>875,197</b>	<b>283,520</b>
Net assets, beginning of year	<u>11,864,466</u>	<u>12,739,663</u>
<b>Net assets, end of year</b>	<b><u>\$12,739,663</u></b>	<b><u>\$13,023,183</u></b>

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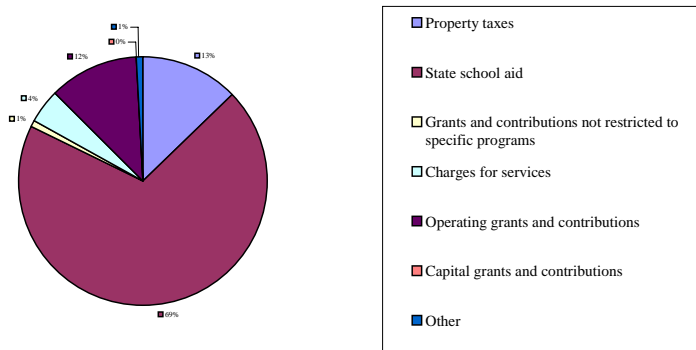
## Expenses and Program Revenues - Governmental Activities

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## Revenues by Source - Governmental Activities



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## Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,202,208, an increase of \$941,515 in comparison with the prior year. Approximately 99% of this total amount (\$5.20 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in inventory and are not available for current expenditure.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,062,822 while total fund balance was \$3,758,563. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent approximately 33.9 percent of total general fund expenditures.

The fund balance of the District's general fund increased by \$416,160 during the current fiscal year. This is primarily attributable to the repayment from the capital projects fund for supplementing the construction project finished in April 2006.

The general fund transferred \$1,280,461 to the capital projects fund in June 2006 to accelerate the building project with the agreement the capital projects fund would repay the general fund over a two (2) year period. These repayments are made with the money collected from sinking fund taxes.

A separate transfer of \$500,000 from the general fund to the capital projects fund for future use was done and approved by the Board through a budget amendment.

### **General Fund Budgetary Highlights**

Differences between the original and final amended budgets were relatively minor. Once additional information was known, subsequent budget amendments recognized the additional revenue and additional planned expenditures were added to various District programs.

### **Capital Asset and Debt Administration**

**Capital assets.** The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$8,527,713 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment.

#### **District's Capital Assets (net of depreciation) June 30, 2008**

Land	\$ 96,000
Buildings	7,955,059
Vehicles	229,314
Equipment	<u>247,340</u>
<b>Total</b>	<b><u>\$ 8,527,713</u></b>

Additional information on the District's capital assets can be found in note III.C of the underlying financial statements.

**Long-term debt.** At the end of the current fiscal year, the District had total bonded debt outstanding of \$52,248. This bond is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state aid payments from the State of Michigan.

Additional information on the District's long-term debt can be found in note III.F on page 31 of the underlying financial statements.

### **Factors Bearing on the District's Future**

The following factors were considered in preparing the District's budget for the 2008-09 fiscal year:

- The economical downswing and the leveling off student enrollment. An increase of \$100 per pupil in State Aid foundation allowance was budgeted for 2008-09.
- At the end of the 2007-08 school year, the District offered an early retirement incentive to all teaching staff with more than 25 years of service. Thirteen staff members at the top of the salary scale took the offer and retired. Even though not all new teachers were brought in at the 0 step, the District will see financial savings in the future. Four teachers will receive additional salary with lane changes due to completion of additional certification for the 2008-09 year.
- Continued MPSERS costs. HB 4530 of 2007 changes the method of valuing assets for the Michigan Public School Employees' Retirement System reducing the employer contributions required for the 2007-08 fiscal year (FY 2008). Assets will be revalued to reflect the market value at September 30, 2006, allowing the system to recognize recent years of positive investment earnings. This action would also reset the 5-year smoothing period. Therefore the contribution rate due on members' wages paid between October 2007 and September 30, 2008, will be decreased to 16.54%.
- The district's enrollment has leveled off and no increase in students anticipated in budgeting for 2008-09.
- In the summer of 2008, the District will spend around \$300,000 of Capital Project funds to rewire the District with Cat 6 cables. It will upgrade the servers and switches and add a new phone system, putting a phone in every classroom. A new public address system will also be added at the Jr./Sr. High School to ensure safety.
- In the summer/fall of 2008, a construction project to connect the Jr./Sr. High School to the township sewer will be done at a cost of \$185,000. This will also be an expense out of the Capital Projects fund. The move will reduce septic field and pump maintenance down the road and ensure no field failure.
- The District will be making upgrades to its football complex. A new drainage system and crown of the field will be installed to address the deteriorating field. The track has large cracks in the pad making patch fixes temporary while not addressing the underlying problem. The track will be replaced as well. The concession stand and bathroom are in disrepair and will be replaced as well.

- The District will be going to voters in May 2009 to renew its current sinking fund. This money will be used to renovate the library and computer labs that do not have enough computers. An increase of one computer lab will allow teachers more access to those educational tools.
- Inflationary trends in the region compare favorably to national indices.

### **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, 400 South State Street, Michigan Center, Michigan 49254.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS



**Michigan Center School District**  
**Statement of Net Assets**  
**June 30, 2008**

	<b>Governmental Activities</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 4,518,805
Receivables	1,798,064
Inventories	9,629
Total current assets	<u>6,326,498</u>
Noncurrent assets:	
Capital assets, not being depreciated	96,000
Capital assets being depreciated, net	8,431,713
Total noncurrent assets	<u>8,527,713</u>
<b>Total assets</b>	<u>14,854,211</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable and accrued liabilities	1,038,748
Unearned revenue	37,962
Current portion of long-term obligations	7,095
Current portion of accrued severance and sick leave payable	237,758
Total current liabilities	<u>1,321,563</u>
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	45,153
Noncurrent portion of accrued severance and sick leave payable	464,312
Total noncurrent liabilities	<u>509,465</u>
<b>Total liabilities</b>	<u>1,831,028</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	8,527,713
Restricted for:	
Capital projects	1,379,186
Other purposes	64,459
Unrestricted	<u>3,051,825</u>
<b>Total net assets</b>	<u><u>\$ 13,023,183</u></u>

The accompanying notes are an integral part of these financial statements.

**Michigan Center School District**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Basic programs	\$ 5,834,834	\$ -	\$ 78,200	\$ -
Added needs	1,436,118	-	1,007,331	-
Total instruction	7,270,952	-	1,085,531	-
Support services:				
Pupil	586,869	-	22,817	-
Instructional services	316,138	-	210	-
General administration	221,029	-	16,369	-
School administration	906,289	-	-	-
Business	157,579	-	-	-
Maintenance	1,566,154	-	-	-
Transportation	233,903	-	-	-
Data processing	144,760	-	47,807	-
Other support services	47,762	-	-	-
Total supporting services	4,180,483	-	87,203	-
Food service	564,922	236,160	316,006	-
Athletics	239,786	71,541	-	-
Community service	251,450	222,275	-	-
Depreciation - unallocated	315,336	-	-	-
Total governmental activities	\$ 12,825,109	\$ 529,976	\$ 1,488,740	\$ -

Continued

**Michigan Center School District**  
**Statement of Activities (concluded)**  
**For the Year Ended June 30, 2008**

	<b><u>Governmental Activities</u></b>
<b>Changes in net assets</b>	
Net expense	<u>\$ (10,806,393)</u>
General revenues:	
Property taxes	1,813,182
State school aid	9,025,235
Grants and contributions not restricted to specific programs	109,427
Unrestricted investment earnings	<u>142,069</u>
Total general revenues	<u>11,089,913</u>
Change in net assets	283,520
Net assets, beginning of year	<u>12,739,663</u>
<b>Net assets, end of year</b>	<u><u>\$ 13,023,183</u></u>

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

**Michigan Center School District**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2008**

	<b>General Fund</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 3,089,830	\$ 1,379,186	\$ 49,789	\$ 4,518,805
Accounts receivable	6,286	-	15,140	21,426
Due from other governmental units	1,719,678	-	56,960	1,776,638
Due from other funds	834	-	-	834
Inventories	3,447	-	6,182	9,629
	<hr/>	<hr/>	<hr/>	<hr/>
<b><u>TOTAL ASSETS</u></b>	<b>\$ 4,820,075</b>	<b>\$ 1,379,186</b>	<b>\$ 128,071</b>	<b>\$ 6,327,332</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Salaries payable	\$ 830,991	\$ -	\$ 3,576	\$ 834,567
Accrued expenses	195,902	-	3,611	199,513
Due to other funds	-	-	834	834
Deferred revenue	34,619	-	55,591	90,210
Total liabilities	<hr/> 1,061,512	<hr/> -	<hr/> 63,612	<hr/> 1,125,124
<b>Fund balances</b>				
Reserved for inventories	3,447	-	6,182	9,629
Unreserved:				
Designated for subsequent year's expenditures, reported in:				
General fund	692,294			
Special revenue funds	-	-	30,680	30,680
Undesignated, reported in:				
General fund	3,062,822	-	-	3,062,822
Special revenue funds	-	-	27,597	27,597
Capital projects fund	-	1,379,186	-	1,379,186
Total fund balances	<hr/> 3,758,563	<hr/> 1,379,186	<hr/> 64,459	<hr/> 5,202,208
	<hr/>	<hr/>	<hr/>	<hr/>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b>\$ 4,820,075</b>	<b>\$ 1,379,186</b>	<b>\$ 128,071</b>	<b>\$ 6,327,332</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**Michigan Center School District**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2008**

Fund balances - total governmental funds	\$	5,202,208
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets		14,411,443
Deduct: accumulated depreciation		(5,883,730)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term Durant Settlement receivable		52,248
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable		(52,248)
Deduct: accrued interest on bonds payable		(4,668)
Deduct: compensated absences, retirement incentives, and severance pay		(702,070)

Net assets of governmental activities	\$	13,023,183
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The accompanying notes are an integral part of these financial statements.

**Michigan Center School District**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 1,295,525	\$ 738,833	\$ 529,976	\$ 2,564,334
State sources	9,463,994	-	22,580	9,486,574
Federal sources	151,777	-	293,426	445,203
Other sources	625,266	-	-	625,266
Total revenues	11,536,562	738,833	845,982	13,121,377
<b>Expenditures</b>				
Instruction:				
Basic programs	5,369,669	-	-	5,369,669
Added needs	1,435,453	-	-	1,435,453
Total instruction	6,805,122	-	-	6,805,122
Support services:				
Pupil	574,102	-	-	574,102
Instructional services	321,262	-	-	321,262
General administration	228,406	-	-	228,406
School administration	909,371	-	-	909,371
Business	194,653	-	-	194,653
Maintenance	1,505,761	-	-	1,505,761
Transportation	328,943	-	-	328,943
Data processing	144,760	-	-	144,760
Other support services	56,742	-	-	56,742
Total support services	4,264,000	-	-	4,264,000
Athletics	-	-	239,786	239,786
Community service	-	-	251,448	251,448
Food service	-	-	566,836	566,836
Capital outlay	-	52,670	-	52,670
Total expenditures	11,069,122	52,670	1,058,070	12,179,862
Revenues over (under) expenditures	467,440	686,163	(212,088)	941,515
<b>Other financing sources (uses)</b>				
Transfers in	643,720	500,000	195,000	1,338,720
Transfers out	(695,000)	(643,720)	-	(1,338,720)
Total other financing sources (uses)	(51,280)	(143,720)	195,000	-
Net change in fund balances	416,160	542,443	(17,088)	941,515
Fund balance, beginning of year	3,342,403	836,743	81,547	4,260,693
<b>Fund balance, end of year</b>	<b>\$ 3,758,563</b>	<b>\$ 1,379,186</b>	<b>\$ 64,459</b>	<b>\$ 5,202,208</b>

The accompanying notes are an integral part of these financial statements.

**Michigan Center School District**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2008**

Net change in fund balances - total governmental funds	\$	941,515
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		138,846
Deduct: depreciation expense		(315,336)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: payments received on long-term Durant Settlement receivable		(12,748)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable		(2,180)
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Deduct: increase in the accrual for compensated absences, retirement incentives, and severance pay		(466,577)
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Change in net assets of governmental activities	\$	283,520
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The accompanying notes are an integral part of these financial statements.



**Michigan Center School District**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2008**

	<b>Budget Amounts</b>			<b>Actual Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenues</b>				
Local sources	\$ 1,890,219	\$ 1,287,611	\$ 1,295,525	\$ 7,914
State sources	9,454,780	9,451,247	9,463,994	12,747
Federal sources	220,100	151,569	151,777	208
Other sources	547,500	620,955	625,266	4,311
Total revenues	12,112,599	11,511,382	11,536,562	25,180
<b>Expenditures</b>				
Instruction:				
Basic programs	5,559,899	5,374,669	5,369,669	(5,000)
Added needs	1,568,905	1,437,416	1,435,453	(1,963)
Total instruction	7,128,804	6,812,085	6,805,122	(6,963)
Support services:				
Pupil	615,157	574,928	574,102	(826)
Instructional services	341,918	322,174	321,262	(912)
General administration	270,137	229,205	228,406	(799)
School administration	901,245	911,660	909,371	(2,289)
Business	299,339	194,768	194,653	(115)
Maintenance	1,615,214	1,525,178	1,505,761	(19,417)
Transportation	374,254	341,677	328,943	(12,734)
Central services	223,471	145,327	144,760	(567)
Other support services	54,812	57,635	56,742	(893)
Total support services	4,695,547	4,302,552	4,264,000	(38,552)
Total expenditures	11,824,351	11,114,637	11,069,122	(45,515)
Revenues over expenditures	288,248	396,745	467,440	70,695
<b>Other financing sources (uses)</b>				
Transfers in	-	643,720	643,720	-
Transfers out	(675,000)	(695,000)	(695,000)	-
	(675,000)	(51,280)	(51,280)	-
Net change in fund balance	(386,752)	345,465	416,160	70,695
Fund balance, beginning of year	3,342,403	3,342,403	3,342,403	-
Fund balance, end of year	\$ 2,955,651	\$ 3,687,868	\$ 3,758,563	\$ 70,695

The accompanying notes are an integral part of these financial statements.

**Michigan Center School District**  
**Statement of Fiduciary Net Assets**  
**June 30, 2008**

	<b>Private- Purpose Trust</b>	<b>Agency Fund</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 51,093	\$ 104,540
Investments	<u>57,768</u>	<u>-</u>
Total assets	108,861	<u><u>\$ 104,540</u></u>
<b>Liabilities</b>		
Due to student groups	<u>-</u>	<u><u>\$ 104,540</u></u>
<b>Net assets</b>		
Restricted for scholarships	<u><u>\$ 108,861</u></u>	

The accompanying notes are an integral part of these financial statements.

**Michigan Center School District**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Year Ended June 30, 2008**

	<b>Private- Purpose Trust</b>
	<hr/>
<b>Additions</b>	
Private donations	\$ 4,035
Loss on investments	(9,649)
Total additions	<hr/> (5,614)
<b>Deductions</b>	
Scholarships	<hr/> 2,500
<b>Change in net assets</b>	(8,114)
Net assets, beginning of year	<hr/> 116,975
<b>Net assets, end of year</b>	<hr/> <hr/> \$ 108,861

The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS

# MICHIGAN CENTER SCHOOL DISTRICT

## Notes to the Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

The Michigan Center School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# MICHIGAN CENTER SCHOOL DISTRICT

## Notes to the Financial Statements

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received and grant and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* accounts for the acquisition of capital assets or construction of major capital projects, which are primarily funded by property taxes (Sinking Fund millage) and transfers from other funds.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

The *debt service* fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

The *private purpose trust fund* accounts for contributions earmarked for scholarships available to qualifying students of the District.

# MICHIGAN CENTER SCHOOL DISTRICT

## Notes to the Financial Statements

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

### **D. Assets, liabilities and equity**

#### **1. Cash and cash equivalents/investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

#### **2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

#### **3. Inventory**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund and Food Service Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

#### **4. Capital assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

# MICHIGAN CENTER SCHOOL DISTRICT

## Notes to the Financial Statements

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	45
Vehicles	5-10
Equipment	5-20

### 5. *Compensated absences*

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and 50 percent of sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### 6. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types generally recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs and immaterial bond discounts, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### 7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.



# MICHIGAN CENTER SCHOOL DISTRICT

## Notes to the Financial Statements

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### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

#### B. Sinking Fund

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For these activities, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Asset follows:

**Statement of Net Assets:**

Cash and cash equivalents	<u>\$ 4,518,805</u>
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**Statement of Fiduciary Net Assets:**

Private Purpose Trust Fund:

Cash and cash equivalents	51,093
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Investments	57,768
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Agency Fund:

Cash and cash equivalents	<u>104,540</u>
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	<u>213,401</u>
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**\$ 4,732,206**

Bank deposits	\$ 86,281
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Investments in securities, investment pools and similar vehicles	<u>4,645,925</u>
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**\$4,732,206**

# MICHIGAN CENTER SCHOOL DISTRICT

## Notes to the Financial Statements

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### *Statutory Authority*

State statutes authorize the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

### **Deposits and investments**

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments.

<b><u>Investment</u></b>	<b><u>Maturity</u></b>	<b><u>Fair Value</u></b>	<b><u>Rating</u></b>
Michigan Liquid Asset Fund	n/a	\$ 4,583,312	S&P – AAAm
Nuveen Quality Preferred Income Fund	n/a	57,768	n/a
Comerica J Fund	n/a	<u>4,845</u>	n/a
		<b><u>\$ 4,645,925</u></b>	

### **Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

# MICHIGAN CENTER SCHOOL DISTRICT

## Notes to the Financial Statements

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$176,830 of the District's bank balance of \$280,057 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk as these investments are uncategorized as to risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

### B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amounts Not Expected to be Collected Within One Year</u>
<b>Receivables:</b>				
Accounts	\$ 6,286	\$ 15,140	\$ 21,426	\$ -
Intergovernmental	1,719,678	4,712	1,724,390	-
Durant settlement	-	52,248	52,248	45,153
	<u>\$ 1,725,964</u>	<u>\$ 72,100</u>	<u>\$ 1,798,064</u>	<u>\$ 45,153</u>

# MICHIGAN CENTER SCHOOL DISTRICT

## Notes to the Financial Statements

### C. Capital assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Capital assets not being depreciated:</b>				
Land	\$ 96,000	\$ -	\$ -	\$ 96,000
Construction in progress	-	-	-	-
<b>Subtotal</b>	<u>96,000</u>	<u>-</u>	<u>-</u>	<u>96,000</u>
<b>Capital assets being depreciated:</b>				
Buildings and improvements	12,724,281	-	-	12,724,281
Vehicles	628,209	83,651	3,700	708,160
Equipment	859,930	55,195	32,123	883,002
<b>Subtotal</b>	<u>14,212,420</u>	<u>138,846</u>	<u>35,823</u>	<u>14,315,443</u>
<b>Accumulated depreciation</b>				
Buildings and improvements	4,526,613	242,609	-	4,769,222
Vehicles	446,823	35,723	3,700	478,846
Equipment	630,781	34,008	29,127	635,662
<b>Total accumulated depreciation</b>	<u>5,604,217</u>	<u>312,340</u>	<u>32,827</u>	<u>5,883,730</u>
<b>Total capital assets being depreciated - net</b>	<u>8,608,203</u>	<u>(173,494)</u>	<u>2,996</u>	<u>8,431,713</u>
<b>Governmental activities capital assets - net</b>	<u><u>\$ 8,704,203</u></u>	<u><u>\$ (173,494)</u></u>	<u><u>\$ 2,996</u></u>	<u><u>\$ 8,527,713</u></u>

Depreciation expense of \$315,336 was charged to the function "unallocated depreciation", and was not allocated to the other functions. This includes \$2,996 of loss on disposal of capital assets.

# MICHIGAN CENTER SCHOOL DISTRICT

## Notes to the Financial Statements

### D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Fund Financial Statements:</b>			
Accounts payable	\$ 195,902	\$ 3,611	\$ 199,513
Salaries payable	<u>830,991</u>	<u>3,576</u>	<u>834,567</u>
	<b><u>\$1,026,893</u></b>	<b><u>\$ 7,187</u></b>	1,034,080
Accrued interest			<u>4,668</u>
<b>Total per government-wide financial statements</b>			<b><u>\$ 1,038,748</u></b>

### E. Interfund receivables, payables and transfers

At June 30, 2008, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 695,000	\$ 643,720
Capital Projects Fund	643,720	500,000
Nonmajor governmental funds	<u>-</u>	<u>195,000</u>
	<b><u>\$ 1,338,720</u></b>	<b><u>\$ 1,338,720</u></b>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2008, the District transferred funds to subsidize the athletics program, food service and to provide funds for a building project.

# MICHIGAN CENTER SCHOOL DISTRICT

## Notes to the Financial Statements

### F. Long-term debt

At the end of the current fiscal year, the District had total bonded debt outstanding of \$52,248. This bond is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state aid payments from the State of Michigan. Remaining payments vary from \$8,951 to \$26,854 through 2013, and include interest at 4.76%.

Annual debt service requirements to maturity for general obligation bonds are as follows:

<b>Year Ended June 30,</b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2009	\$ 7,095	\$ 1,858	\$ 8,953
2010	7,432	1,519	8,951
2011	7,785	1,166	8,951
2012	21,391	5,463	26,854
2013	<u>8,545</u>	<u>407</u>	<u>8,952</u>
<b>Totals</b>	<b><u>\$ 52,248</u></b>	<b><u>\$ 10,413</u></b>	<b><u>\$ 62,661</u></b>

At the end of the current fiscal year, the District offered eligible employees an early retirement incentive agreement, for which 13 employees accepted. The agreement provides for payments of \$11,667 to be made to each employee in January 2009, 2010 and 2011 for a total of \$455,000. Totals to be paid for the years ending June 30, 2009, 2010 and 2011 are \$151,667, 151,667 and 151,666, respectively.

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2008, was as follows:

<b><u>Primary Government</u></b>	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b><u>Ending Balance</u></b>	<b><u>Due Within One Year</u></b>
<b>Governmental activities</b>					
Durant Non - plaintiff bonds	\$ 52,248	\$ -	\$ -	\$ 52,248	\$ 7,095
Voluntary retirement incentive	-	455,000	-	455,000	151,667
Compensated absences	<u>235,493</u>	<u>71,077</u>	<u>59,500</u>	<u>247,070</u>	<u>86,091</u>
	<b><u>\$ 287,741</u></b>	<b><u>\$ 526,077</u></b>	<b><u>\$ 59,500</u></b>	<b><u>\$ 754,318</u></b>	<b><u>\$ 244,853</u></b>

Compensated absences and voluntary retirement incentives are generally liquidated by the general fund.

# MICHIGAN CENTER SCHOOL DISTRICT

## Notes to the Financial Statements

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### IV. OTHER INFORMATION

#### A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

#### B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on July 1 and December 1 by Leoni Township and the City of Jackson whose boundaries include property within the District and are due on February 14. Delinquent real taxes are advanced to the District by the Revolving Tax Fund of Jackson County.

#### C. Defined benefit pension plan

##### Plan Description

The Michigan Center School District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

# MICHIGAN CENTER SCHOOL DISTRICT

## Notes to the Financial Statements

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### **Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Michigan Center School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and the Michigan Center School District are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$1,059,175 \$1,170,063, and \$1,055,879, respectively, equal to the required contributions for each year.

### **Other Postemployment Benefits**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

\* \* \* \* \*



## COMBINING FUND STATEMENTS

**Michigan Center School District**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2008**

	<u>Special Revenue</u>			<u>Durant</u>	<u>Total</u>
	<u>Athletics</u>	<u>Community</u>	<u>Food</u>	<u>Debt</u>	<u>Nonmajor</u>
<u>ASSETS</u>		<u>Service</u>	<u>Service</u>	<u>Service</u>	<u>Governmental</u>
<b>Assets</b>					<b>Funds</b>
Cash and cash equivalents	\$ 35,191	\$ -	\$ 14,598	\$ -	\$ 49,789
Accounts receivable	-	15,140	-	-	15,140
Due from other governmental units	-	-	4,712	52,248	56,960
Inventories	-	-	6,182	-	6,182
<b><u>TOTAL ASSETS</u></b>	<b>\$ 35,191</b>	<b>\$ 15,140</b>	<b>\$ 25,492</b>	<b>\$ 52,248</b>	<b>\$ 128,071</b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b>Liabilities</b>					
Salaries payable	\$ -	\$ 3,576	\$ -	\$ -	\$ 3,576
Accrued expenses	3,300	311	-	-	3,611
Deferred revenue	-	-	3,343	52,248	55,591
Total liabilities	3,300	4,721	3,343	52,248	63,612
<b>Fund balances</b>					
Reserved for inventories	-	-	6,182	-	6,182
Unreserved:					
Designated for subsequent year's expenditures	27,160	3,520	-	-	30,680
Undesignated	4,731	6,899	15,967	-	27,597
Total fund balances	31,891	10,419	22,149	-	64,459
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b>\$ 35,191</b>	<b>\$ 15,140</b>	<b>\$ 25,492</b>	<b>\$ 52,248</b>	<b>\$ 128,071</b>

**Michigan Center School District**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2008**

	<b>Special Revenue</b>			<b>Durant</b>	<b>Total</b>
	<b>Athletics</b>	<b>Community Service</b>	<b>Food Service</b>	<b>Debt Service</b>	<b>Nonmajor Governmental Funds</b>
<b>Revenues</b>					
Local sources	\$ 71,541	\$ 222,275	\$ 236,160	\$ -	\$ 529,976
State sources	-	-	22,580	-	22,580
Federal sources	-	-	293,426	-	293,426
Total revenues	71,541	222,275	552,166	-	845,982
<b>Expenditures</b>					
Athletics	239,786	-	-	-	239,786
Community service	-	251,448	-	-	251,448
Food service	-	-	566,836	-	566,836
Total expenditures	239,786	251,448	566,836	-	1,058,070
Revenue under expenditures	(168,245)	(29,173)	(14,670)	-	(212,088)
<b>Other financing sources</b>					
Transfers in	175,000	-	20,000	-	195,000
Net change in fund balances	6,755	(29,173)	5,330	-	(17,088)
Fund balance, beginning of year	25,136	39,592	16,819	-	81,547
<b>Fund balance, end of year</b>	<b>\$ 31,891</b>	<b>\$ 10,419</b>	<b>\$ 22,149</b>	<b>\$ -</b>	<b>\$ 64,459</b>



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

September 19, 2008

Board of Education  
Michigan Center School District  
Michigan Center, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the ***MICHIGAN CENTER SCHOOL DISTRICT*** as of and for the year ended June 30, 2008, and have issued our report thereon dated September 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Michigan Center School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Michigan Center School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
UNDER SAS NO. 114**

September 19, 2008

To the Board of Education of the  
Michigan Center School District  
Michigan Center, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Michigan Center School District* for the year ended June 30, 2008, and have issued our report thereon dated September 19, 2008 professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated July 10, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Michigan Center School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Michigan Center School District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing communicated to you during various discussions throughout the audit.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Michigan Center School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 19, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Michigan Center School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", written in a cursive style.



# **Michigan Center School District**

## **Comments and Recommendations**

**For the Year Ended June 30, 2008**

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In planning and performing our audit of the financial statements of the Michigan Center School District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

### **Other Matters**

#### **Trust and Agency Funds**

During our audit we noted the District has no policy relating to the types of expenditures that are allowable in the student activity accounts. In addition we noted certain expenditures were paid with cash rather than by check. Proper internal controls provide that all disbursements be made by check. We recommend the District implement a set of guidelines to ensure all expenses made with student activity funds are appropriate and reasonable expenses for the activity. We also recommend all disbursements for expenses be made by issuance of a check.

# **Michigan Center School District**

## **Comments and Recommendations**

**For the Year Ended June 30, 2008**

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### **Child Care credit policy**

We noted that certain delinquent child care accounts turned over to the collection agency were several hundred dollars in amount. In order to prevent these large delinquencies, we recommend that the Child Care program establish and enforce a policy that ceases services to families after they become delinquent after one or two weeks delinquency.

### **Employee Dishonesty Bond**

Presently, the District is covered by an employee dishonesty bond in the amount of \$25,000 per occurrence. Because of the increased financial activity of the District over the past several years, we recommend that the District consider increasing this coverage as insurance against a defalcation.

### **Bank Reconciliations**

The bank reconciliation, process is a fundamental element of internal control. We examined completed bank reconciliations on all accounts; however, we noted there was no indication as to who prepared the reconciliation. To assist in strengthening internal controls over the bank reconciliations process, we recommend that both the preparer and reviewer initial and date the reconciliations to provide for proper documentation and an effective audit trail.

### **Athletic Gate Receipts**

The tally sheets from athletic events which reconcile the cash collected with the tickets issued are discarded once the money is turned over to the central office. In the future, we recommend that these tally sheets be maintained at least until the annual audit is completed.

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